



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

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December 22, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Office of the Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Room TW-A325
Washington, D.C. 20554

Re: Comments of the Kentucky Public Service Commission
CC Docket No. 96-45
DA 98-2410

Dear Secretary:

Enclosed please find for filing the original and six copies of the Kentucky Public Service Commission's comments regarding the Universal Service Joint Board's Second Recommended Decision.

Thank you.

Sincerely,

Amy E. Dougherty
Staff Attorney

Enclosures

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FEDERAL COMMUNICATIONS COMMISSION

**COMMON CARRIER BUREAU SEEKS COMMENT ON
UNIVERSAL SERVICE JOINT BOARD'S
SECOND RECOMMENDED DECISION
CC DOCKET NO. 96-45
DA 98-2410**

**COMMENTS OF THE KENTUCKY PUBLIC SERVICE COMMISSION
ON THE JOINT BOARD RECOMMENDATIONS TO THE FCC**

Comes now the Kentucky Public Service Commission, by counsel, and makes the following comments regarding the Joint Board Recommendations to the Federal Communications Commission ("FCC"). The Joint Board's Second Recommendation contains many recommendations that would change how the federal USF is calculated and distributed. To the extent that the Joint Board supports changes to current FCC decisions, there is no further discussion of either why the FCC's decisions are inadequate or why its recommendations are superior to FCC decisions. In short, there is little or no support for the Joint Board's recommendations, some of which would fundamentally alter previous FCC decisions. Further, even though the Joint Board says that it considered all proposals submitted by parties, (for example, see paragraph 41 at 18) there is no discussion as to why certain proposals were judged inadequate and not adopted.

**Section IV - Proposed Method for Ensuring Sufficient Support
For Affordable and Reasonably Comparable Rates**

The Kentucky Public Service Commission shares the concerns of South Dakota Commissioner Schoenfelder and FCC Commissioner Furchgott-Roth regarding the

alteration of FCC decisions concerning the cost proxy model prior to the Joint Board and the FCC having even selected the input values and evaluated the model's results.

Subsection IV.B - Size of Area Over Which Cost Are Covered

The Joint Board proposes that the FCC now reject its previous decision that forward-looking costs be determined at the wire center or below and now determine forward-looking costs at the study area scale. The "support calculated at this level will properly measure the support responsibility that ought to be borne by federal mechanisms given the current extent of local competition." (Second Recommendation, paragraph 33 at 16). The Joint Board also recognizes "that, as competition develops within a study area, calculating costs using the aggregate characteristics of the study area may become less appropriate." (*Id.*, paragraph 34 at 16) The Kentucky Public Service Commission is concerned that it now appears that the goal of making implicit subsidies explicit has taken a back seat to rate affordability, and rate comparability.

Using study areas, rather than wire centers or smaller geographic areas, works to either preserve existing urban to rural implicit subsidies or could create inadequate federal support to the states. For example, assuming that the FCC adopts a uniform cost model and the states adopt such a model, there is still the potential for problems. Existing urban to rural area implicit subsidies have been established by the states, not the FCC. But what happens if the FCC adopts study areas for use in the cost proxy model and individual states discharge their responsibilities under the Act to eliminate implicit subsidies by using wire centers or smaller geographic areas in their cost models? In this case, the states' universal service support cost estimates will be higher than if study areas had been used, assuming analogous inputs other than study areas

or wire centers are used. For those states requiring additional support, there could be disagreement between the FCC and the states on the "actual" cost figure. States attempting to eliminate all implicit subsidies in a timely fashion run the risk of receiving federal support that is less than the amount justified by their cost models, or agreeing with the Joint Board/FCC and leaving implicit subsidies in place until adequate competition develops. Further, the Joint Board does not discuss the consequences of its recommendations if competition does not sufficiently develop and, thus, not put pressure on implicit subsidies. The Joint Board Recommendation does not address how competition will develop if the costs are knowingly under calculated and implicit subsidies are not properly made explicit or eliminated. The Joint Board has neither provided adequate support for its recommendation to reverse the FCC's prior decision nor justified its reasoning in purposefully under calculating universal service support by averaging costs over an entire study area.

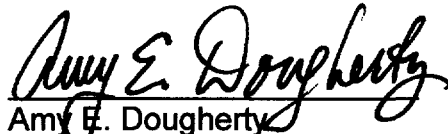
Subsection IV.D - Methodology for Federal Support of Reasonably
Comparable Rates and Section V - Size of Federal Support Mechanism

The Kentucky Public Service Commission is concerned that the Joint Board is recommending that the FCC abandon its revenue-based benchmark in favor of a cost-based benchmark. The FCC has previously rejected such a proposal. The Joint Board has neither provided discussion as to why its proposal is an improvement over what has already been rejected nor why its proposal is an improvement over rationale embodied in the FCC's decision to use a revenue benchmark. (See FCC First Report and Order dated May 8, 1997, paragraphs 257-267.)

In paragraph 41 of the recommendation, the Joint Board states that its framework addresses only the affordability and comparability goals of the Act. However, these

goals are not separable from the goals of eliminating implicit subsidies. Elimination of implicit subsidies and encouraging competition in local markets should not be sacrificed for the sake of achieving rate affordability and rate comparability, and hoping that competition will develop later. Whether or not reasonable rate comparability between the states occurs will ultimately depend upon states' actions. The goals of rate affordability and rate comparability will be better served by the FCC establishing national policies and guidelines that encourage the development of local market competition and that will aid states' efforts to identify and eliminate implicit subsidies. In this regard, federal high cost support should be given to all states that need support, as opposed to only those with the greatest need.

Respectfully submitted,

A handwritten signature in cursive script, reading "Amy E. Dougherty".

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COUNSEL FOR KENTUCKY PUBLIC
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